

BYRON AREA SCHOOLS  
BYRON, MICHIGAN  
AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2005

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 19, 2005

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Byron Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Byron Area Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Byron Area Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Byron Area Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VII and 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Byron Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

BYRON AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Byron Area Schools, a K-12 school District located in Shiawassee County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Byron Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

BYRON AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**District Wide Financial Statements: (Continued)**

These two statements report the Byron Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>		
Current Assets	\$3,891,276	\$3,855,798
Non-Current Assets	<u>2,088,487</u>	<u>2,103,518</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$5,979,763</u></b>	<b><u>\$5,959,316</u></b>
<b><u>LIABILITIES</u></b>		
Current Liabilities	\$2,394,343	\$2,329,893
Long-Term Liabilities	<u>167,685</u>	<u>228,120</u>
Total Liabilities	\$2,562,028	\$2,558,013
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets - Net of Related Debt	2,027,300	2,042,331
Restricted - Capital Projects	131,892	129,522
Unrestricted	<u>1,258,543</u>	<u>1,229,450</u>
Total Net Assets	<u>\$3,417,735</u>	<u>\$3,401,303</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$5,979,763</u></b>	<b><u>\$5,959,316</u></b>

BYRON AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$349,375	\$325,642
Property Taxes Levied for Debt Service	0	221,153
State of Michigan Unrestricted Foundation Aid	8,442,531	8,254,984
Other General Revenues	67,813	95,715
Total General Revenues	<u>\$8,859,719</u>	<u>\$8,897,494</u>
<u>Operating Grants:</u>		
Federal	242,261	254,519
State of Michigan	442,264	388,600
Total Operating Grants	<u>\$684,525</u>	<u>\$643,119</u>
<u>Charges for Services:</u>		
Food Service	298,260	214,396
Athletics	38,184	49,433
Other Charges for Services	356,494	285,838
Total Charges for Services	<u>\$692,938</u>	<u>\$549,667</u>
Total Revenues	<u>\$10,237,182</u>	<u>\$10,090,280</u>
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	6,076,599	5,940,064
Support Services	3,139,875	2,862,399
Community Services	118,287	122,989
Food Service	505,259	463,210
Athletics	246,209	253,790
Interest on Long-Term Debt	0	10,628
Depreciation	134,521	192,165
Total Expenses	<u>\$10,220,750</u>	<u>\$9,845,245</u>
<b><u>INCREASE IN NET ASSETS</u></b>	<u>\$16,432</u>	<u>\$245,035</u>
<b><u>BEGINNING NET ASSETS</u></b>	<u>3,401,303</u>	<u>3,156,268</u>
<b><u>ENDING NET ASSETS</u></b>	<u><u>\$3,417,735</u></u>	<u><u>\$3,401,303</u></u>

BYRON AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets increased by \$16,432 to a total of \$3,417,735. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$15,031 during the year due to depreciation and principal payments on related debt exceeding the purchase of new capital assets. The districts Unrestricted Net Assets increased by \$29,093 during the year and the restricted portion of the net assets increased by \$2,370. The restricted Net Assets consist of the Investment in Capital Assets-net of related debt. The unrestricted net assets may be used to fund the educational services provided to students. The significant changes in unrestricted net assets was the general fund expenditures exceeding revenues.

Analysis of Results of Operations

The District's overall revenues exceeded expenses its for the year by \$16,432. The total revenues increased by \$146,902 or 1% over last years amounts. The major change was an increase in state aid. Expenditures increased by \$375,505. Major changes were due to salary and fringe benefit increases.

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$2,117 during the year with the decrease coming primarily in cash. Revenues for the year increased by \$322,496 primarily from state aid and revenue from other districts. Expenditures and other financing uses increased by \$309,901, primarily from increased wages and benefits. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)  
The State of Michigan aid, unrestricted, is determined with the following variables:
  - a. State of Michigan State Aid Act per student foundation allowance
  - b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
  - c. The District's non-homestead tax levy.
2. Per Student Foundation Allowance:  
Annually, the State of Michigan establishes the per student foundation allowance. The Byron Area Schools foundation allowance was \$6,700 per student for the 2004-2005 school year.
3. Student Enrollment:  
The District's student enrollment for the fall count of 2004-2005 was 1,342 students. A increase of 26 students from the prior year.

BYRON AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property revenue for the 2004-2005 fiscal year was \$349,375. An increase of \$23,733 from the prior year.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual &amp; Original Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenue	\$9,294,263	\$9,726,628	\$9,725,781	4.64	(0.01)
Expenditures	9,449,722	9,726,628	9,727,898	(2.94)	(0.01)
<u>TOTAL</u>	<u>(\$155,459)</u>	<u>\$0</u>	<u>(\$2,117)</u>		

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Byron Area Schools amends its budget during the school year. The June, 2005 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	<u>Principal Balance 7-1-04</u>	<u>Increases 6-30-05</u>	<u>Principal Payments 6-30-05</u>	<u>Principal Balance 6-30-05</u>
Durant Bonds	\$61,187	\$0	\$0	\$61,187
Sick Days Payable	166,933	0	38,503	128,430
<u>Total Long-Term Debt</u>	<u>\$228,120</u>	<u>\$0</u>	<u>\$38,503</u>	<u>\$189,617</u>



BYRON AREA SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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**CAPITAL ASSET AND DEBT ADMINISTRATION:** (Continued)

B. Capital Assets

The district's net investment in capital assets decreased by \$15,031 during the fiscal year. This can be summarized as follows:

	Balance 7-1-04	Additions	Deductions	Balance 6-30-05
Capital Assets	\$5,973,639	\$239,347	\$84,611	\$6,128,375
Less: Accumulated Depreciation	(3,870,121)	(254,378)	(84,611)	(4,039,888)
<u>Net Investment Capital Outlay</u>	<u>\$2,103,518</u>	<u>(\$15,031)</u>	<u>\$0</u>	<u>\$2,088,487</u>

Significant additions were the purchase of two new buses, a truck and phone system.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Byron Area Schools.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
STATEMENTS OF NET ASSETS  
JUNE 30, 2005 AND 2004

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$623,055	\$511,531
Investments	1,647,353	1,733,806
Accounts Receivable	0	1,997
Taxes Receivable	29	4,435
Due from Other Governmental Units	1,595,368	1,580,211
Inventory	25,471	23,818
Total Current Assets	<u>\$3,891,276</u>	<u>\$3,855,798</u>
<u>NON-CURRENT ASSETS</u>		
Capital Assets	6,128,375	5,973,639
Less: Accumulated Depreciation	<u>(4,039,888)</u>	<u>(3,870,121)</u>
Total Noncurrent Assets	<u>\$2,088,487</u>	<u>\$2,103,518</u>
<u>TOTAL ASSETS</u>	<u>\$5,979,763</u>	<u>\$5,959,316</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	189,424	174,719
State Aid Anticipation Note Payable	1,474,000	1,500,000
Accrued Expenses	49,127	12,625
Salaries Payable	659,860	642,549
Current Portion of Long-Term Obligations	21,932	0
Total Current Liabilities	<u>\$2,394,343</u>	<u>\$2,329,893</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>167,685</u>	<u>228,120</u>
<u>TOTAL LIABILITIES</u>	<u>\$2,562,028</u>	<u>\$2,558,013</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	2,027,300	2,042,331
Restricted for:		
Capital Projects	131,892	129,522
Unrestricted	<u>1,258,543</u>	<u>1,229,450</u>
<u>TOTAL NET ASSETS</u>	<u>\$3,417,735</u>	<u>\$3,401,303</u>

See accompanying notes to the basic financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
STATEMENTS OF ACTIVITIES  
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
Governmental Activities:				Net (Expense)
Instruction	\$6,076,599	\$0	\$449,162	Revenue &
Support Services	3,139,875	238,657	66,187	Change in
Community Services	118,287	117,837	0	Net Assets
Food Service	505,259	298,260	169,176	
Athletics	246,209	38,184	0	
Interest - Long-Term Obligations	0	0	0	
Depreciation - Unallocated	134,521	0	0	
<u>TOTALS</u>	<u>\$10,220,750</u>	<u>\$692,938</u>	<u>\$684,525</u>	<u>(\$8,843,287)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				349,375
State Aid				8,442,531
Investment Earnings				34,354
Miscellaneous				33,459
Total General Revenues and Transfers				<u>\$8,859,719</u>
Change in Net Assets				<u>\$16,432</u>
Net Assets - Beginning - As Restated				<u>3,401,303</u>
<u>Net Assets - Ending</u>				<u>\$3,417,735</u>

See accompanying notes to the basic financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$391,956	\$231,099	\$623,055
Investments	1,647,353	0	1,647,353
Taxes Receivable	29	0	29
Due from Other Funds	4,316	0	4,316
Due from Other Governmental Units	1,592,392	2,976	1,595,368
Inventory	0	25,471	25,471
<u>TOTAL ASSETS</u>	<u>\$3,636,046</u>	<u>\$259,546</u>	<u>\$3,895,592</u>
<u>LIABILITIES</u>			
Accounts Payable	\$189,218	\$206	\$189,424
State Aid Anticipation Note Payable	1,474,000	0	1,474,000
Due to Other Funds	0	4,316	4,316
Accrued Expenses	47,982	1,145	49,127
Salaries Payable	659,860	0	659,860
Total Liabilities	<u>\$2,371,060</u>	<u>\$5,667</u>	<u>\$2,376,727</u>
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	25,471	25,471
Capital Projects	0	131,892	131,892
Unreserved:			
Undesignated, Reported In:			
General Fund	1,264,986	0	1,264,986
School Service Funds	0	96,516	96,516
Total Fund Balances	<u>\$1,264,986</u>	<u>\$253,879</u>	<u>\$1,518,865</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,636,046</u>	<u>\$259,546</u>	<u>\$3,895,592</u>

See accompanying notes to the basic financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

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Total Governmental Fund Balances:	\$1,518,865
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Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$6,128,375 and the accumulated depreciation is \$4,039,888	2,088,487
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Long-term liabilities, including bonds payable, are not due and  
payable in the current period and therefore are not reported as  
liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	\$61,187	
Sick Days Payable	128,430	
Total Long-Term Liabilities	<u>          </u>	<u>(189,617)</u>

<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u><u>\$3,417,735</u></u>
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BYRON AREA SCHOOLS - BYRON, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$557,650	\$342,225	\$899,875
State Sources	8,842,550	42,245	8,884,795
Federal Sources	115,330	126,931	242,261
Total Revenues	<u>\$9,515,530</u>	<u>\$511,401</u>	<u>\$10,026,931</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	6,045,725	0	6,045,725
Student Services	191,001	0	191,001
Instructional Support	218,442	0	218,442
General Administration	312,549	0	312,549
School Administration	572,874	0	572,874
Business Administration	218,529	0	218,529
Operation & Maintenance of Plant	1,100,071	0	1,100,071
Transportation	581,325	0	581,325
Community Services	118,287	0	118,287
Food Service	0	737,842	737,842
Total Expenditures	<u>\$9,358,803</u>	<u>\$737,842</u>	<u>\$10,096,645</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$156,727	(\$226,441)	(\$69,714)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(221,518)	221,518	0
Other Transfers	62,674	0	62,674
Total Other Financing Sources (Uses)	<u>(\$158,844)</u>	<u>\$221,518</u>	<u>\$62,674</u>
Net Change in Fund Balance	(\$2,117)	(\$4,923)	(\$7,040)
<u>FUND BALANCE - BEGINNING</u>	<u>1,267,103</u>	<u>258,802</u>	<u>1,525,905</u>
<u>FUND BALANCE - ENDING</u>	<u>\$1,264,986</u>	<u>\$253,879</u>	<u>\$1,518,865</u>

See accompanying notes to the basic financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

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Total net change in fund balances - governmental funds	(\$7,040)
--	-----------

Amounts reported for governmental activities in the statement of  
activities are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. This is  
the amount by which depreciation exceeded capital outlay in the  
current period.

(15,031)
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Decrease in accrued compensated absences
--

<u>38,503</u>
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<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>
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<u><u>\$16,432</u></u>
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BYRON AREA SCHOOLS - BYRON, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2005

<hr/>	
	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	\$143,795
<u>TOTAL ASSETS</u>	<u>\$143,795</u>
<u>LIABILITIES</u>	
Due to Student Groups	\$143,795
<u>TOTAL LIABILITIES</u>	<u>\$143,795</u>

See accompanying notes to the basic financial statements.



BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Byron Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received.. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted Average Maturity (Years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF External Investment Pool - MICMS	1,370	0.0027	AAAm	0.08%
MILAF External Investment Pool - MIMAX	1,645,983	0.0027	AAAm	99.92%
Total fair value	<u>\$ 1,647,353</u>			<u>100.00%</u>

Portfolio weighted average maturity

0.0027

1 day maturity equals 0.0027, one year equals 1.00.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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4) DEPOSITS AND INVESTMENTS (Continued)

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in mutual funds and pooled investment accounts which represents 100% of the District's total investments.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$747,117 of the District's bank balance of \$947,117 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$143,795	\$ 766,850
Investments	<u>1,647,353</u>
<u>TOTAL</u>	<u>\$ 2,414,203</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 143,795
Cash – District Wide	623,055
Investments – District Wide	<u>1,647,353</u>
<u>TOTAL</u>	<u>\$ 2,414,203</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,595,368

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the District had \$206 of estimated claims payable in conjunction with the program.

8) SHORT-TERM DEBT

The District borrowed \$1,474,000 at 1.570% interest per annum on August 20, 2004, from JPMorgan Chase on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note matures August 20, 2005.

9) OPERATING LEASES

The District entered into a operating lease with Xerox for copiers on May 31, 2005. The lease payment is \$4,186 per month for a period of sixty months.

Future minimum payments for the operating leases is as follows:

June 30, 2006	\$ 50,233
June 30, 2007	50,233
June 30, 2008	50,233
June 30, 2009	50,233
June 30, 2010	50,233
	<u>50,233</u>

<u>TOTALS</u>	<u>\$ 251,165</u>
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10) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2004</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2005</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$2,455,866	\$30,838	\$0	\$2,486,704
Land & Land Improvements	1,946,405	11,450	0	1,957,855
Equipment and Furniture	471,619	57,434	0	529,053
Vehicles	1,099,749	139,625	84,611	1,154,763
Totals at Historical Cost	\$5,973,639	\$239,347	\$84,611	\$6,128,375
Less: Accumulated Depreciation				
Buildings and Improvements	(1,597,818)	(53,377)	0	(1,651,195)
Land Improvements	(1,274,820)	(85,636)	0	(1,360,456)
Equipment and Furniture	(331,043)	(36,736)	0	(367,779)
Vehicles	(666,440)	(78,629)	(84,611)	(660,458)
Total Accumulated Depreciation	(\$3,870,121)	(\$254,378)	(\$84,611)	(\$4,039,888)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$2,103,518</u>	<u>(\$15,031)</u>	<u>\$0</u>	<u>\$2,088,487</u>



BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

10) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 30,874
Support Services	75,357
Food Service	1,230
Athletics	12,396
Unallocated	<u>134,521</u>
 <u>TOTAL DEPRECIATION EXPENSE</u>	 <u>\$ 254,378</u>

11) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2005 were \$73,995 and the School District received a dividend refund of \$18,565.

12) GENERAL LONG-TERM DEBT

A) Durant Resolution Package Bonds

Byron Area Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$126,705 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$61,187. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

B) Annual Principal Requirements

The annual principal requirements for all debt outstanding as of June 30, 2005 are as follows:

	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2006	\$21,932	\$9,805	\$31,737
June 30, 2007	4,855	1,869	6,724
June 30, 2008	5,088	1,638	6,726
June 30, 2009	5,330	1,396	6,726
June 30, 2010	5,584	1,142	6,726
June 30, 2011-2013	<u>18,398</u>	<u>1,779</u>	<u>20,177</u>
 <u>TOTAL</u>	 <u>\$61,187</u>	 <u>\$17,629</u>	 <u>\$78,816</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$0.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

12) GENERAL LONG-TERM DEBT (Continued)

C) Changes in General Long-Term Debt

	BALANCE			BALANCE	AMOUNT DUE
<u>Governmental Activities:</u>	JULY 1, 2004	ADDITIONS	DEDUCTIONS	JUNE 30, 2005	IN ONE YEAR
Durant Bonds	\$61,187	\$0	\$0	\$61,187	\$21,932
Sick Days Payable	166,933	0	38,503	128,430	0
<u>Total Governmental Activities</u>	<u>\$228,120</u>	<u>\$0</u>	<u>\$38,503</u>	<u>\$189,617</u>	<u>\$21,932</u>

13) INTERFUND ACTIVITY

Interfund balances at June 30, 2005 consisted of the following:

<b>DUE FROM</b>	
<b>DUE TO</b>	<b>GENERAL FUND</b>
Special Revenue Fund	<u>\$4,316</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

14) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

<b>TRANSFERS FROM</b>	
<b>TRANSFERS TO</b>	<b>General Fund</b>
Athletics	\$195,602
Food Service	<u>25,916</u>
<u>TOTAL</u>	<u>\$221,518</u>

These transfers were made to subsidize the cost of services for athletics and food service.

15) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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15) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$823,561, \$727,668 and \$685,875, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantor agencies.

17) SUBSEQUENT EVENTS

The District has approved borrowing \$1,360,000 from JPMorgan Chase to meet cash flow needs for the 2005-2006 fiscal year. The Bonds will be issued August 19, 2005 at a interest rate of 2.92%.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
<u>REVENUES</u>				
Local Sources	\$539,828	\$561,505	\$557,650	(\$3,855)
State Sources	8,506,481	8,839,204	8,842,550	3,346
Federal Sources	117,954	115,919	115,330	(589)
Total Revenues	\$9,164,263	\$9,516,628	\$9,515,530	(\$1,098)
<u>EXPENDITURES</u>				
Current:				
Instruction	6,129,722	6,038,249	6,045,725	(7,476)
Pupil Services	203,470	190,725	191,001	(276)
Instructional Support	193,843	218,215	218,442	(227)
General Administration	314,485	311,880	312,549	(669)
School Administration	580,765	572,715	572,874	(159)
Fiscal Services & Other Business Services	203,985	218,690	218,529	161
Operation & Maintenance of Plant	957,747	1,102,824	1,100,071	2,753
Transportation	453,530	581,400	581,325	75
Other Support Services	48,900	0	0	0
Community Services	118,275	122,660	118,287	4,373
Total Expenditures	\$9,204,722	\$9,357,358	\$9,358,803	(\$1,445)
Excess of Revenues Over Expenditures	(\$40,459)	\$159,270	\$156,727	(\$2,543)
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	(115,000)	(159,270)	(158,844)	426
	(\$155,459)	\$0	(\$2,117)	(\$2,117)
<u>FUND BALANCE - BEGINNING</u>			1,267,103	
<u>FUND BALANCE - ENDING</u>			\$1,264,986	

OTHER SUPPLEMENTAL  
INFORMATION

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2005

	School Service Fund	Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$99,207	\$131,892	\$231,099
Due From Other Governmental Units	2,976	0	2,976
Inventory	25,471	0	25,471
<u>TOTAL ASSETS</u>	<u>\$127,654</u>	<u>\$131,892</u>	<u>\$259,546</u>
<u>LIABILITIES</u>			
Accounts Payable	\$206	\$0	\$206
Due to Other Funds	4,316	0	4,316
Accrued Expenses	1,145	0	1,145
Total Liabilities	\$5,667	\$0	\$5,667
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	25,471	0	25,471
Capital Projects	0	131,892	131,892
Unreserved:			
Undesignated, Reported In:			
School Service Fund	96,516	0	96,516
Total Fund Balances	\$121,987	\$131,892	\$253,879
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$127,654</u>	<u>\$131,892</u>	<u>\$259,546</u>

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	School Service Fund	Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$339,855	\$2,370	\$342,225
State Sources	42,245	0	42,245
Federal Sources	126,931	0	126,931
Total Revenues	<u>\$509,031</u>	<u>\$2,370</u>	<u>\$511,401</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>221,518</u>	<u>0</u>	<u>221,518</u>
Total Revenues & Other Financing Sources	<u>\$730,549</u>	<u>\$2,370</u>	<u>\$732,919</u>
<u>EXPENDITURES</u>			
Food Service	<u>737,842</u>	<u>0</u>	<u>737,842</u>
Net Change in Fund Balance	<u>(\$7,293)</u>	<u>\$2,370</u>	<u>(\$4,923)</u>
<u>NET ASSETS - BEGINNING</u>	<u>129,280</u>	<u>129,522</u>	<u>258,802</u>
<u>NET ASSETS - ENDING</u>	<u>\$121,987</u>	<u>\$131,892</u>	<u>\$253,879</u>



BYRON AREA SCHOOLS - BYRON, MICHIGAN  
SCHOOL SERVICE FUND  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$97,856	\$1,351	\$99,207
Due From Other Governmental Units	2,976	0	2,976
Inventory	25,471	0	25,471
<u>TOTAL ASSETS</u>	<u>\$126,303</u>	<u>\$1,351</u>	<u>\$127,654</u>
<u>LIABILITIES</u>			
Accounts Payable	\$0	\$206	\$206
Due to Other Funds	4,316	0	4,316
Accrued Expenses	0	1,145	1,145
Total Liabilities	\$4,316	\$1,351	\$5,667
<u>FUND EQUITY</u>			
Reserved for Inventory	25,471	0	25,471
Unreserved and Undesignated	96,516	0	96,516
Total Fund Equity	\$121,987	\$0	\$121,987
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$126,303</u>	<u>\$1,351</u>	<u>\$127,654</u>

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
SCHOOL SERVICE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$298,260	\$0	\$298,260
Athletic Activities	0	38,184	38,184
Interest	1,183	0	1,183
Other Local Sources	2,228	0	2,228
Total Local Sources	<u>\$301,671</u>	<u>\$38,184</u>	<u>\$339,855</u>
<u>State Sources</u>			
State Reimbursements	42,245	0	42,245
<u>Federal Sources</u>			
Federal Reimbursements	104,085	0	104,085
Commodities	22,846	0	22,846
Total Federal Sources	<u>\$126,931</u>	<u>\$0</u>	<u>\$126,931</u>
Total Revenues	<u>\$470,847</u>	<u>\$38,184</u>	<u>\$509,031</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	25,916	195,602	221,518
Total Revenues and Other Financing Sources	<u>\$496,763</u>	<u>\$233,786</u>	<u>\$730,549</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	147,506	129,526	277,032
Insurances	19,667	0	19,667
Fica, Retirement, Etc.	36,890	29,356	66,246
Purchased Services	6,858	25,927	32,785
Supplies and Materials	269,367	26,222	295,589
Capital Outlay	21,309	10,551	31,860
Other	2,432	12,231	14,663
Total Expenditures	<u>\$504,029</u>	<u>\$233,813</u>	<u>\$737,842</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES</u>	<u>(\$7,266)</u>	<u>(\$27)</u>	<u>(\$7,293)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$129,253</u>	<u>\$27</u>	<u>\$129,280</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$121,987</u>	<u>\$0</u>	<u>\$121,987</u>

INDIVIDUAL FUND SCHEDULES OF  
REVENUES, EXPENDITURES AND  
OTHER FINANCING USES

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2005

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REVENUES FROM
Local Sources

Property Tax Levy	\$349,375
Earnings on Investments and Deposits	30,801
Tuition	3,382
Childcare Fees	99,964
Kids Kamp Fees	17,873
Preschool School Fees	24,887
Other Local Revenues	31,368
Total Revenues from Local Sources	<u>\$557,650</u>

State Sources

State Aid	8,442,531
Durant	9,578
At Risk	87,134
Special Education	159,919
Vocational Education	64,006
Other State Grants	56,609
Michigan School Readiness	19,800
Driver Education	2,973
Total Revenues from State Sources	<u>\$8,842,550</u>

Federal Sources

Title I Regular	62,420
Class Size Reduction	40,004
Title V	798
Emergency Response	5,000
Technology Literacy	1,586
Medicaid	1,699
CM White Physical Fitness	937
Safe and Drug Free Schools	2,200
Perkins Tech Prep	686
Total Revenues from Federal Sources	<u>\$115,330</u>
Total Revenues	<u>\$9,515,530</u>

OTHER FINANCING SOURCES

Transfers from Other Districts	<u>210,251</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES

\$9,725,781

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTIONBasic ProgramsElementary

Salaries - Professional	\$1,351,590
Salaries - Non-Professional	43,126
Insurances	335,902
Fica, Retirement, Etc.	310,987
Purchased Services	744
Supplies and Materials	38,531
Capital Outlay	15,038
Other	584
Total Elementary	<u>\$2,096,502</u>

Middle School

Salaries - Professional	810,938
Salaries - Non-Professional	19,575
Insurances	165,088
Fica, Retirement, Etc.	185,441
Purchased Services	356
Supplies and Materials	28,541
Capital Outlay	12,508
Other	380
Total Middle School	<u>\$1,222,827</u>

High School

Salaries - Professional	863,463
Salaries - Non-Professional	67,538
Insurances	263,427
Fica, Retirement, Etc.	205,263
Purchased Services	23,395
Supplies and Materials	87,036
Capital Outlay	19,624
Other	1,020
Total High School	<u>\$1,530,766</u>

Pre-School

Salaries - Professional	25,036
Salaries - Non-Professional	15,025
Fica, Retirement, Etc.	9,006
Purchased Services	1,043
Supplies and Materials	3,693
Capital Outlay	865
Total Pre-School	<u>\$54,668</u>

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)Basic Programs (Continued)Drivers Education

Salaries - Non-Professional	\$20,309
Fica, Retirement, Etc.	3,303
Supplies and Materials	123
Total Preschool	<u>\$23,735</u>

Total Basic Programs	\$4,928,498
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ADDED NEEDSSPECIAL EDUCATION

Salaries - Professional	297,862
Salaries - Non-Professional	19,194
Insurances	85,932
Fica, Retirement, Etc.	70,697
Purchased Services	270
Supplies and Materials	12,716
Total Special Education	<u>\$486,671</u>

COMPENSATORY EDUCATION

Salaries - Professional	54,267
Salaries - Non-Professional	40,434
Insurances	15,004
Fica, Retirement, Etc.	21,118
Supplies and Materials	2,463
Total Compensatory Education	<u>\$133,286</u>

VOCATIONAL EDUCATION

Salaries - Professional	273,135
Salaries - Non-Professional	24,354
Insurances	74,653
Fica, Retirement, Etc.	66,193
Purchased Services	2,306
Supplies and Materials	21,860
Capital Outlay	34,143
Other	626
Total Vocational Education	<u>\$497,270</u>

Total Added Needs	<u>1,117,227</u>
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<u>Total Instruction</u>	\$6,045,725
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BYRON AREA SCHOOLS - BYRON, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICESSTUDENT SERVICESCounseling

Salaries - Professional	\$60,634
Insurances	14,286
Fica, Retirement, Etc.	13,523
Purchased Services	750
Supplies and Materials	293
Total Counseling	<u>\$89,486</u>

Health Services

Purchased Services	16,756
Supplies and Materials	392
Total Counseling	<u>\$17,148</u>

Other Student Services

Salaries - Professional	30,003
Salaries - Non-Professional	37,026
Fica, Retirement, Etc.	15,036
Supplies and Materials	2,302
Total Other Student Services	<u>\$84,367</u>

Total Student Services	\$191,001
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INSTRUCTIONAL STAFFLibrary

Salaries - Professional	58,259
Insurances	3,206
Fica, Retirement, Etc.	13,122
Purchased Services	87
Supplies and Materials	12,088
Capital Outlay	1,229
Total Library	<u>\$87,991</u>

Other Instructional Staff

Salaries - Professional	88,281
Insurances	14,109
Fica, Retirement, Etc.	19,450
Purchased Services	8,398
Supplies and Materials	213
Total Other Instructional Staff	<u>\$130,451</u>

Total Instructional Staff	\$218,442
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## BYRON AREA SCHOOLS - BYRON, MICHIGAN

GENERAL FUNDSCHEDULE OF EXPENDITURES AND OTHER FINANCING USESFOR THE YEAR ENDED JUNE 30, 2005SUPPORT SERVICES (Continued)GENERAL ADMINISTRATION

Salaries - Professional	\$111,336
Salaries - Non-Professional	65,036
Insurances	28,367
Fica, Retirement, Etc.	36,773
Purchased Services	42,317
Supplies and Materials	20,714
Capital Outlay	3,355
Other	4,651
Total General Administration	<u>\$312,549</u>

SCHOOL ADMINISTRATION

Salaries - Professional	249,685
Salaries - Non-Professional	110,632
Insurances	86,834
Fica, Retirement, Etc.	78,320
Purchased Services	25,346
Supplies and Materials	20,132
Capital Outlay	1,925
Total School Administration	<u>\$572,874</u>

BUSINESS OFFICE

Salaries - Professional	112,239
Insurances	20,750
Fica, Retirement, Etc.	25,002
Purchased Services	3,333
Supplies and Materials	4,924
Other	52,281
Total Business Office	<u>\$218,529</u>

OPERATION & MAINTENANCE OF PLANT

Salaries - Professional	46,782
Salaries - Non-Professional	278,642
Insurances	109,141
Fica, Retirement, Etc.	74,142
Purchased Services	162,806
Supplies and Materials	314,963
Capital Outlay	113,595
Total Operation and Maintenance of Plant	<u>\$1,100,071</u>



BYRON AREA SCHOOLS - BYRON, MICHIGAN

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)

TRANSPORTATION

Salaries - Professional	\$43,227
Salaries - Non-Professional	214,033
Insurances	16,806
Fica, Retirement, Etc.	66,823
Purchased Services	16,524
Supplies and Materials	111,840
Capital Outlay	110,677
Other	1,395
Total Transportation	<u>\$581,325</u>

Total Support Services	\$3,194,791
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COMMUNITY SERVICES

Salaries - Non-Professional	49,176
Fica, Retirement, Etc.	10,839
Supplies and Materials	10,290
Other	47,982
Total Community Services	<u>\$118,287</u>

Total Expenditures	\$9,358,803
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OTHER FINANCING USES

Transfers to Other Districts	147,577
Transfers to Other Funds	221,518
Total Other Financing Uses	<u>\$369,095</u>

TOTAL EXPENDITURES AND OTHER  
FINANCING USES

\$9,727,898

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS -  
STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS			DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005	
After School Activities - Elem	\$1,906	\$393	\$750	\$1,549	
Band - HS	352	445	531	266	
Baseball - HS	64	2,238	2,062	240	
Basketball - Girls - HS	3,338	4,922	3,803	4,457	
Book Account - HS	74	0	0	74	
Building/Trades - HS	700	0	0	700	
Bus Drivers - HS	352	0	0	352	
Byron Elem. - Coca Cola	1,144	1,134	899	1,379	
Central Office - Admin	4,150	0	519	3,631	
Cheerleaders - HS	142	15,426	15,565	3	
Chess Club - HS	0	2,587	1,878	709	
Class of 2004	626	0	626	0	
Class of 2005	4,540	4,756	7,670	1,626	
Class of 2006	0	17,919	16,156	1,763	
Class of 2007	203	0	91	112	
Class of 2008	0	300	112	188	
Desk Top Publishing - HS	336	0	0	336	
Drama - High School	1,310	4,040	5,348	2	
Drivers Education - HS	16,596	17,539	729	33,406	
Eight Grade Trip - Concessions - MS	898	0	0	898	
Eight Grade Trip - MS	260	3,236	1,747	1,749	
Elementary Account	25,288	40,304	31,504	34,088	
Elementary Fifth Grade Trip	0	20,165	19,669	496	
Elementary Kindergarten Activity	0	882	772	110	
Elementary Playground Fund	300	534	240	594	
Employees Fund - HS	47	1,805	467	1,385	
Environmental Club - HS	225	0	1	224	
FCCLA - HS	635	83	0	718	
FFA Account - HS	812	60,178	56,586	4,404	
FFA Greenhouse - HS	348	3,000	348	3,000	
Football Account - HS	3,462	11,084	10,322	4,224	
French Club - HS	2,560	7,580	7,618	2,522	
Girls Softball - Varsity - HS	1,037	347	719	665	
Golf - HS	834	5,700	4,578	1,956	
Homecoming Fund - HS	685	1,138	1,107	716	
Honor Society - HS	1,210	4,685	4,708	1,187	
Industrial Arts - HS	51	718	191	578	
Library - Administration	2,840	810	0	3,650	
Library - Elementary	297	637	116	818	
Library - High School	1,303	114	0	1,417	
Middle School Activity	685	0	0	685	

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS -  
STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
Misc. - High School	\$4	\$2,262	\$2,241	\$25
Miscellaneous - Admin.	1,409	2,316	1,200	2,525
Newspaper - Middle School	317	0	0	317
Parking Permits - HS	250	0	0	250
Photo Fund - HS	4,163	0	2,334	1,829
Professional Development	5	0	0	5
SADD - HS	58	0	0	58
Soccer - HS	676	327	125	878
Special Ed - HS	321	0	0	321
Student Council - Elem.	1,295	0	199	1,096
Student Council - HS	126	3,867	2,930	1,063
Student Council - MS	533	11,788	9,823	2,498
Testing - HS	100	0	0	100
Track - HS	706	4,219	3,884	1,041
Volleyball - HS	634	4,723	4,203	1,154
Wrestling Account - HS	2,737	5,886	5,459	3,164
Yearbook - Elementary	0	4,805	2,746	2,059
Yearbook - HS	3,806	10,813	10,744	3,875
Yearbook - MS	5,500	3,760	4,600	4,660
<u>TOTALS</u>	<u>\$102,250</u>	<u>\$289,465</u>	<u>\$247,920</u>	<u>\$143,795</u>

BYRON AREA SCHOOLS - BYRON, MICHIGAN  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$95,776

<u>1998 DURANT RESOLUTION PACKAGE BONDS</u>				
	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$21,932	4.761353%	\$9,805	\$31,737
2007	4,855	4.761353%	1,869	6,724
2008	5,088	4.761353%	1,638	6,726
2009	5,330	4.761353%	1,396	6,726
2010	5,584	4.761353%	1,142	6,726
2011	5,850	4.761353%	876	6,726
2012	6,128	4.761353%	597	6,725
2013	6,420	4.761353%	306	6,726
<u>TOTAL</u>	<u>\$61,187</u>		<u>\$17,629</u>	<u>\$78,816</u>
	18,398		1,779	



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 19, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of  
Byron Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Byron Area Schools, as of and for the year ended June 30, 2005, which collectively comprise the Byron Area Schools' basic financial statements and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Byron Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Byron Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Byron Area Schools, in a separate letter dated August 19, 2005.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lewis & Knopf P.C.*

LEWIS & KNOFF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS



# Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 19, 2005

To the Board of Education of  
Byron Area Schools

In planning and performing our audit of the financial statements of Byron Area Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Byron Area Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

## CURRENT YEAR FINDINGS

### 1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, Byron Area Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

## FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Byron Area Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)



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- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Byron Area Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lewis & Knopf P.C.*

LEWIS & KNOFF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS